

EXECUTIVE SECRETARIAT
ROUTING SLIP

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2	DDCI				
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9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/Pers				
14	D/OLL				
15	D/PAO				
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18	C/IPD/OIS				
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Remarks

CC O&I

David Low, NIO/AA

[Signature] tary

13 Oct 84
Date

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WASHINGTON

Executive Registry

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CABINET AFFAIRS STAFFING MEMORANDUM

Date: 10/12/84 Number: 169084CA Due By: _____Subject: Cabinet Council on Economic Affairs Planning Meeting - October 16, 1984

Government Spending & the Private Economy

8:45 A.M. - Roosevelt Room TOPICS: Treasury's Fed., State, Local Fiscal Relations

ALL CABINET MEMBERS	Action	FYI		Action	FYI
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	McFarlane	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Svahn	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
UN	<input type="checkbox"/>	<input type="checkbox"/>	Executive Secretary for:		
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCCT	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	CCEA	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	CCFA	<input type="checkbox"/>	<input type="checkbox"/>
NASA	<input type="checkbox"/>	<input type="checkbox"/>	CCHR	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	CCLP	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>	CCMA	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

There will be a Cabinet Council on Economic Affairs Planning meeting on Tuesday, October 16, 1984, at 8:45 A.M. in the Roosevelt Room.

The agenda and background papers are attached.

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs

☐ Don Clarey ☒ Tom Gibson ☐ Larry Herbolsheimer
Associate Director
Office of Cabinet Affairs

THE WHITE HOUSE

WASHINGTON

October 12, 1984

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER *ABP*

SUBJECT: Agenda and Papers for the October 16 Meeting

The agenda and papers for the October 16 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The first agenda item is a review of government spending and the private economy. A paper prepared by Gregory Ballentine examining trends in the composition of government spending and its effects on the private economy was distributed to Council members on October 5 along with the papers for the October 9 meeting. The paper differentiates government spending for purchases of products and services and government spending that involves transfer payments. It then examines the effects on the private economy of each of these two basic types of government spending.

The second agenda item is a review of the Treasury Studies of Federal-State-Local Fiscal Relations. Last year, the legislation reauthorizing the Revenue Sharing Program directed the Secretary of the Treasury to conduct an extensive series of studies of Federal-State-Local fiscal relations. These studies have generated a good deal of interest. A memorandum from Thomas Healey providing background on these studies and describing the timetable for their completion is attached.

Attachments

THE WHITE HOUSE

WASHINGTON

CABINET COUNCIL ON ECONOMIC AFFAIRS

October 16, 1984

8:45 a.m.

Roosevelt Room

AGENDA

1. Government Spending and the Private Economy
(CM # 495)
2. Treasury's Studies of Federal-State-Local
Fiscal Relations (CM # 493)



DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

ASSISTANT SECRETARY

October 3, 1984

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: Thomas J. Healey 11

SUBJECT: Background on Treasury's Studies of Federal-State-Local Fiscal Relations

The 1983 legislation reauthorizing the Revenue Sharing Program (P.L. 98-185, excerpt attached) directs the Secretary of the Treasury to conduct an extensive series of studies of Federal-State-local fiscal relations. The studies are designed to inform upcoming debates on grant and tax policy as well as Congressional consideration of the future of Revenue Sharing when the current authorization sunsets at the end of FY 1986. The Congress wants the studies to provide a careful delineation of the relevant facts and appraisals of the realistic policy options. The final report on the studies must be submitted to the President and the Congress by June 30, 1985.

While the legislation vests the overall responsibility for the studies in the Secretary of the Treasury, it directs that the planning and the conduct of the research effort proceed in consultation with the Comptroller General, the Advisory Commission on Intergovernmental Relations (ACIR), the Secretary of Commerce, and organizations of State-local officials.

Responding to this Congressional mandate, the Treasury has established a formal Advisory Group of State-local government organizations (list attached). It has also enlisted the help of GAO, the ACIR, the Department of Commerce, the Department of Housing and Urban Development, the Department of Agriculture, several State-local organizations, and a number of private contractors in the conduct of the research. The Offices of Policy Development and Intergovernmental Affairs in the White House and OMB have been involved in these activities.

Substance of the Studies

The study amendment mandates research in eight primary areas:

- evaluation of the formulas used to allocate Revenue Sharing funds;

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- assessment of alternative measures of fiscal capacity and effort to be used in the formulas of the Revenue Sharing Program and other major Federal grant programs;
- analysis of the long-term capacities of the Federal, State, and local levels of government to finance their respective service responsibilities;
- evaluation of options for the turnback of services responsibilities from the Federal to the State-local level of government along with the resources to finance them;
- analysis of the roles, if any, of each level of government in coping with the consequences of the cyclical behavior of the economy for State-local finance;
- analysis of the responsiveness of the distribution of Federal aid to the fiscal capacities of State-local governments;
- evaluation of the technical and administrative aspects of Federal grant formulas, with an eye to the efficiency of the allocation of grant funds; and
- analysis of the impacts on State-local governments of possible modification of the Internal Revenue Code relating to the deductibility of State-local taxes and the tax-exempt status of interest payments on State-local securities, along with an assessment of the feasibility of compensating for such modifications by increasing Revenue Sharing and other types of Federal assistance.

While touching on a disparate set of issues, all of the study areas reflect broadly based and essentially non-partisan Congressional concerns about the budgetary efficiency and distributional equity of Federal assistance to State and local governments. These concerns are rooted in two realities: (1) that the decline in the real value of Federal grants-in-aid that began in 1978 is very likely to continue for the foreseeable future, and (2) that the current distribution of the bulk of Federal aid to the States and localities originated in an era of very rapid growth in that aid when issues of whether funds were allocated to truly needy areas were, for the most part, accorded little systematic attention.

Now there is strong interest in identifying opportunities for significant budgetary savings, while at the same time ensuring that no State or community experiences significant hardship. The essential theme of the studies is, therefore, improvement of the budgetary efficiency of the Federal aid system and rationalization of the distribution of that aid, with a view to the long-term revitalization of the federal system.

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Timetable

The legislation requires the Secretary to submit his report to the President and the Congress by June 30, 1985. This has resulted in a tight timetable for the conduct of the research, consultation with State-local officials, and development of the report (see attachment). The central events will be the circulation of draft chapters of the report on February 1 to other Federal agencies and the circulation of a draft of the report on March 1 to the members of the Advisory Group and other reviewers.

Attachments: Section 10, P.L. 98-185
Membership of the Advisory Group
Working Schedule of Key Events

EXCERPTS FROM PUBLIC LAW 98-185

LOCAL GOVERNMENT FISCAL ASSISTANCE AMENDMENTS OF 1983

STUDY OF FEDERAL/STATE/LOCAL FISCAL RELATIONSHIPS

Sec. 10. (a) The Secretary of the Treasury shall undertake a study of the following issues:

(1) The various factors used in the current allocation formulas under chapter 67 of title 31, United States Code, and possible alternatives to such formulas and factors (such as State gross domestic product, the representative tax system, and the inclusion of user fees in factors based on tax collections), including an analysis of the strengths and weaknesses of such formulas and factors.

(2) The long-term outlook for the fiscal condition and fiscal capacity of Federal, State, and local governments.

(3) The concept of returning revenue sources to State and local governments along with responsibility for programs and activities for which responsibility for programs and activities for which financial assistance is now provided by the Federal Government.

(4) The impacts of the cyclical nature of the economy and other factors, such as unemployment, on the expenditures, needs, and fiscal capacities of Federal, State, and local governments, and the responsiveness of the distribution of Federal financial assistance to the cyclical nature of the economy and such other factors.

(5) The responsiveness of the distribution of Federal assistance to the fiscal capacities of State and local governments, and the responsiveness of the distribution of Federal assistance to the need for services of State and local governments and to cost-of-living and cost-of-government differentials.

(6) The mathematical forms, data, and administration of Federal grant formulas, including the formulas examined under paragraph (1).

(7) The impact on State and local governments of--

(A) modification of the provisions of the Internal Revenue Code of 1954 with respect to--

(i) the deductibility of State and local government taxes, and

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(ii) the tax exempt status of State and local securities used for purposes other than the financing of public facilities and cash management, and

(B) increases in allocations under chapter 67 of title 31, United States Code, made to compensate for the modifications described in clause (A).

(b) The Secretary of the Treasury, in consultation with the Secretary of Commerce, the Comptroller General of the United States, the Advisory Commission on Intergovernmental Relations, and recognized organizations of elected officials of State and local governments, including regional organizations of such officials and officials of States that may receive substantially reduced funding under alternative methods of allocating Federal grants-in-aid, shall develop a plan for the completion of the study required by subsection (a). Such plan may provide for the participation of such individuals and organizations in the conduct of the study.

(c) Upon completion of the study required by subsection (a), the Secretary shall solicit the views of the persons and organizations with whom he was required to consult by subsection (b) and shall append such views to a final report to the President and the Congress. Such report shall be submitted no later than June 30, 1985.

(d) There are authorized to be appropriated for each of the fiscal years 1984 and 1985 such sums as may be necessary to carry out this section, not to exceed for each such fiscal year an amount equal to 3 percent of the cost of administering chapter 67 of title 31, United States Code, for the preceding fiscal year.

Office of State and Local Finance
U. S. Department of the Treasury
S#17: May 30, 1984

MEMBERSHIP OF THE ADVISORY GROUP
ON THE STUDIES OF FEDERAL-STATE-LOCAL FISCAL RELATIONS

U. S. DEPARTMENT OF THE TREASURY

1. Association of County Commissioners of Florida
2. Council of State Governments (CSG)
3. Government Finance Officers Association (GFOA)
4. International City Management Association (ICMA)
5. League of Minnesota Cities
6. Midwestern Governors' Conference
7. National Association of Counties (NACo)
8. National Association of State Auditors, Comptrollers, and
Treasurers
9. National Association of State Budget Officers (NASBO)
10. National Association of Towns and Townships (NATAT)
11. National Conference of State Legislatures (NCSL)
12. National Governors' Association (NGA)
13. National League of Cities (NLC)
14. National Tribal Chairmen's Association
15. New England Governors' Conference
16. Southern Governors' Association
17. Southern Legislative Conference
18. Texas Municipal League
19. U. S. Conference of Mayors (USCM)
20. Western Governors' Association
21. Western Interstate Region of NACo
22. Western Legislative Conference

S#15: May 22, 1984

STUDIES OF FEDERAL-STATE-LOCAL FISCAL RELATIONS

WORKING SCHEDULE OF KEY EVENTS

<u>Event</u>	<u>Date</u>
1. Meeting to discuss Treasury's preliminary plans for the studies and the organization of a formal Advisory Group	June 5, 1984
2. Publication of announcement in the <u>Federal Register</u> of Treasury's intention to establish a formal Advisory Group	July 2
3. 1st meeting of the Advisory Group for discussion of study plans and progress	July 13
4. 1st meetings of the three working groups	September 25/26
5. 2nd meetings of the three working groups	November 15/16
6. 3rd meetings of the three working groups	December 10/11
7. 2nd meeting of the Advisory Group	December 11
8. Preliminary drafts of the reports on all technical studies submitted to Treasury	December 31
9. Preliminary drafts of the reports on all technical studies circulated to the members of the Advisory Group, technical advisers, and Federal agencies	January 4, 1985
10. Meeting of technical advisers to discuss the preliminary drafts of the technical reports	January 21
11. 4th meetings of the working groups to discuss the preliminary drafts of the technical reports	January 28/29
12. All other comments of members of Advisory Group, technical advisers, and Federal agencies on preliminary drafts of all technical reports submitted to Treasury	February 1
13. Preliminary drafts of chapters of Treasury's Report completed and circulated to other Federal agencies for review	February 1

#75: 10/1/84

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14. All comments of Federal agencies on the preliminary draft of Treasury's Report submitted to Treasury February 15
15. Final drafts of the reports on all of the technical studies submitted to Treasury March 1
16. Revised drafts of chapters of Treasury's Report circulated to working groups and Advisory Group March 1
17. Final drafts of the reports on all of the technical studies circulated to the members of the Advisory Group, technical advisers, and Federal agencies March 10
18. 5th meetings of the working groups and staff representatives of all members of the Advisory Group March 18/19
19. Final draft of Treasury's Report circulated to the members of the Advisory Group, technical advisers, and Federal agencies April 5
20. 3rd meeting of the Advisory Group to discuss all draft reports April 15/16
21. All comments on the draft reports submitted to Treasury May 1
22. Final meeting of the Advisory Group to review comments on the draft reports and to explore possible accomodations to the comments . . . May 6
23. Final drafts of all comments by State-local interests and other Federal agencies on Treasury's Report submitted to Treasury . . . May 31
24. Treasury's Report, including comments by State-local interests and other Federal agencies, submitted to the President and the Congress June 30, 1985

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